



## **Indirect vs. Direct Costs**

Direct costs are those for activities or services that benefit specific projects, e.g., salaries for project staff and materials required for a particular project. Because these activities are easily traced to projects, their costs are usually charged to projects on an item-by-item basis.

Indirect costs are those for activities or services that benefit more than one project. Their precise benefits to a specific project are often difficult or impossible to trace. For example, it may be difficult to determine precisely how the activities of the director of an organization benefit a specific project.

It is possible to justify the handling of almost any kind of cost as either direct or indirect. Labor costs, for example, can be indirect, as in the case of maintenance personnel and executive officers; or they can be direct, as in the case of project staff members. Similarly, materials such as miscellaneous supplies purchased in bulk — pencils, pens, paper — are typically handled as indirect costs, while materials required for specific projects are charged as direct costs.

### **Examples**

#### **Costs usually charged directly**

- Project staff
- Consultants
- Project supplies
- Publications
- Travel

#### **Costs either charged directly or allocated indirectly**

- Telephone charges
- Computer use
- Project clerical personnel
- Postage and printing
- Miscellaneous office supplies

#### **Costs usually allocated indirectly**

- Utilities
- Rent
- Audit and legal
- Administrative staff
- Equipment rental



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